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ABSTRACT

Minority business development programs emphasize the ownership of business enterprises, mostly personal services and retailing, oriented toward serving minority markets. This effort is reinforced by minority economic development programs which encourage minority ownership of the institutions which serve minority residential areas in order to obtain the benefits of the multiplier effect. These policies damage the chances for the successful development of minority businesses. Data from several Florida cities illustrate the fact that businesses located in census tracts populated predominantly by minority groups will have smaller potential markets than those located in tracts with higher average income levels. Under minority business development programs, new businesses are guided toward risky locations with relatively small markets, while the burden of providing jobs for minorities is shifted from the majority to the minority entrepreneur. (Author/APM)

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MINORITY ECONOMIC DEVELOPMENT AND THE ENTREPRENEUR: GOVERNMENT POLICIES FOR THE LOCATION OF MINORITY BUSINESSES

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As a means of inserting minority group members, especially blacks, into the economic mainstream, the Nixon Administration launched a program that has come to be known as "black capitalism." By adding minority components to existing programs such as the Small Business Administration and creating the Office of Minority Business Enterprise, the federal government sought to promote the creation and expansion of minority owned businesses. State governments were encouraged to do likewise.

The federal minority business programs have suffered from conflicting goals. On the one hand, the programs seek to promote the ownership of businesses by blacks, while at the same time they attempt to locate those businesses in areas of high unemployment to improve minority hiring. This paper will detail this conflict in objectives and present the relationship between location policies and the probable success of minority entrepreneurship programs. Since it is both the largest minority group in the U.S. and the one which as been the recipient of most of the government activity, this paper will deal primarily with programs designed for the black population.

Minority Business Tradition

The ownership of businesses by minority groups can be traced back to colonial times, during which free blacks operated retail and personal service establishments, including restaurants, in many American cities (11, pp. 7-19). Many of these businesses served a white clientele, though the choice of business type was often limited to the type of occupational skill appropriate for a slave (4, p. 103).

After the Civil War, the minority business tradition continued. During this period, however, there was a trend toward businesses which either served the black population or represented occupations which would not be desired by whites. The former white clientele of black businesses evaporated.

The period after the Civil War also saw the development of black financial institucions. The ill-fated Freedman's Bank (a white-run institution), was an effort to encourage thrift among the newly freed blacks. Unfortunately, it resulted in the squandering of their meager capital (11, p. 11). While the experience with the Freedman's Bank created a distrust of banks in the black community, that bank did eventually serve as a model for black-owned banks. 134 black-owned banking institutions were founded between 1888 and 1934 (11, p. 15). Insurance companies developed, often associated with black religious or fraternal groups, specializing in life or burial insurance. These black-owned insurance companies have been among the most successful minority businesses (11, p. 16).

An additional factor introduced after the Civil War was discrimination in the location of businesses. As black businessmen became oriented more toward black clientele, there was increasing pressure to locate stores and other business activities solely within the black residential area. By the 1960s, this resulted in a pattern of black businesses, mostly retail, services, and construction, located almost totally within the black residential areas of American cities.

The pattern of Hispanic enterprises is similar. Hispanics have been limited to serving their own population and are spatially segregated, partly by force and partly through the difference in language and culture (5, pp. 121-122).

Minority Business Development Programs

During the 1968 Presidential campaign, Richard Nixon put forward the concept of black capitalism as a means of getting the black population into the economic mainstream of American life. His campaign promise resulted in the organization of programs in the Department of Commerce oriented toward the support of minority entrepreneurs (11, pp. 66-86). The most notable of these were the Office of Minority Business Enterprise (now the Minority Business Development Agency) and the minority programs of the Small Business Administration.

The programs which were created under the black capitalism concept primarily dealt with capital availability and technical assistance. In the area of capital availability, the Small Business Investment Corporation concept was extended to minorities through Minority Enterprise Small Business Investment Corporations. These were essentially venture capital companies funded by large corporations which could provide relatively small amounts of capital to small businesses. Limits on majority involvement in the minority firms and the inherently risky nature of investment in small businesses has rapidly depleted the ability to provide capital through these firms (11, p. 122).

Technical assistance has been provided primarily through contracts granted to local consultants. These consultants provide assistance in preparing applications for bank loans, designing control systems, and bidding on government contracts. An additional technical assistance program is the regional purchasing council, a group of representatives of large corporations who seek to aid minority businessmen in obtaining orders from the corporations.

Aside from the goal of getting more minorities into business, minority business development programs have also been viewed as minority job creation programs (5, p. 112). The assumption behind this approach is that minority entrepreneurs will be more likely to hire minority employees than will majority entrepreneurs. However, Case points out that profits are necessary before employment can be expanded and, further, that "minority employment efforts appear to offer more potential for success, at less cost, than do minority capitalism efforts." (3, pp. 37 and 75).

Outside of government, minority capitalism has been suggested to be a process of minority economic development. Coles suggested that the goals for black economic development should be:

1. closing gaps between whites and blacks on all indicators of economic well-being,
2. more equitable distribution of income within the black community, and
3. increased upward mobility for black people.

(4, p. 68). Other goals include gaining control of ghetto stores to provide better service to minority group members and to increase the multiplier effect (2, p. 19; 5, p. 112).

Locational Bias

The charge to the original government program for minority business development was to increase the number of minority entrepreneurs both in the areas where they live and in the "larger commercial community" (11, p. 67). However, according to Booms and Ward, "most advocates of minority entrepreneurship feel that the efforts of these programs should be directed toward the establishment of minority businesses in the ghetto areas where most of the minorities reside" (2, p. 18).

There are, of course, many good reasons for the observed concentration of minority firms in minority residential areas. First, past discrimination has limited the locational choices of older firms. Second, many minority firms are retail and service firms which base their business on being able to provide for the special needs and desires of a minority group.

In the case of Atlanta, it has been observed that black businessmen contribute to their community in the form of participation in civic activities, employment of blacks, and the provision of goods and services to the community (11, p. 109). Therefore, it can be argued that the presence of minority businessmen is a benefit to the minority community.

Many minority group members feel exploited by white businessmen who own stores in minority areas. They charge that these stores provide inadequate service at higher prices and with unfavorable credit terms (4, pp. 83-86). If this exploitation in fact occurs (and is not simply a reflection of the high cost of doing business in a low income area), the situation can be improved by replacing white owners with minority group members. However, retailing is

becoming increasingly dominated by large chains, making it more difficult for a minority-owned store to obtain the economies of scale required to compete effectively. The result of increasing minority ownership of retailing in minority areas may well be a decrease in the variety of products offered and an increase in the price.

Locating in a predominantly white area requires the minority retailer to adopt a business format which is attractive to a culture with which the entrepreneur may not be familiar. The minority-owned store may be labelled as catering to blacks or Hispanics rather than to the white customers which it is trying to attract. This factor would suggest that a location in a minority area might be more desirable.

Creating jobs in the ghetto has been a major goal which has led to the encouragement of ghetto locations for minority firms. Andreason found evidence that black-owned establishments in Buffalo's inner-city were more likely to hire black employees than were the white-owned establishments, though he noted that few black firms had employees (1, p. 47). This policy implies that majority companies are trying to avoid their responsibility to provide jobs for minority groups by shifting the burden to minority entrepreneurs.

Banking presents a special case of locational bias. Minority-owned banks have been established for two basic reasons: to provide capital in minority areas and to insure that the savings accumulated in minority communities go to benefit those communities. For these reasons, minority-owned banks tend to be located in minority residential areas. Minority banks tend to be limited by a dependence on small depositors and a portfolio of loans to relatively risky small businesses. According to L.C. Squires, president of a fairly successful minority owned bank, these banks "... have not had the advantage of servicing large profitable businesses because there are only a few such businesses owned and operated by Black Americans in all of America. Therefore, banks owned and

operated by Black Americans have been limited due to the social and economic conditions of their environment" (5, p. 93).

Minority-owned banks are confined to ghetto locations both by the regulatory process, which seeks to avoid excessive competition, and by the desire to divert minority savings from the majority-owned banks. With ghetto locations, however, the banks are cutting themselves off from the sources of capital available in the larger community. Even if they located outside of the minority community, the ability of small minority owned banks to compete for funds in this wider market could be questioned. However, it is unlikely that enough funds will be discovered in the minority community to provide a significant base for loans to minority businesses. Dominguez points out that it is unreasonable to expect minorities to finance their own economic development (5, p. 105); if adequate capital was available in the minority community there would not be a problem in financing minority firms. The role of the whole banking system must be to channel funds from the entire community toward minority firms.

The federal government has attempted to help minority-owned banks by directing the deposits of federal agencies to these banks. These deposits have tended to be relatively small and to be the operating accounts of agencies, deposited for relatively short terms, rather than the more profitable long term deposits of reserve funds (11, p. 85).

Minority Markets in Florida Cities

If minority businesses are primarily retail and service firms located in minority residential areas, then the likelihood of developing successful minority businesses is closely linked to the growth in minority markets. Case emphasizes this relationship when he states that "... regardless of the weight of commitment to social causes, businesses face a risky future when they must depend primarily or exclusively on minority markets" (3, p. 36). What, then, has been happening in these minority markets?

The U.S. Department of Commerce reports that blacks have become, on the average, better educated and wealthier over the past two decades (10, p. 3). This is reflected in changing spending patterns, with more money going toward, housing transportation, and recreation, while relatively less money is spent on food and clothing (10, p. 4). It is useful to note that while average annual expenditures by blacks rose from $3685 in 1960-61 to $5957 in 1972-73, expenditures by whites rose from $5333 to $8193. The percentage growth for blacks was higher over this period, but at the end of the period average annual expenditures by black households was still only 73% of expenditures by white households (10, p. 4). The black market share in 1972-73 only exceeded the proportion of blacks in the population for clothing and transportation other than motor vehicle purchase and operation. The former was a result of high expenditures for laundry and dry cleaning; a direct result of a low proportion of blacks owning in-house laundry equipment. The latter is due to a high reliance on public transportation. The Commerce Department predicts expanding minority markets for residential construction, furniture, appliances, day-care centers, and baby products and clothing, primarily due to the increasing number of blacks in the 25 to 34 year old age group (10, p. 19).

A clearer picture of the minority market can be obtained by examining the available income in the minority residential areas of American cities. Three Florida cities, Jacksonville, Miami, and Tampa, were selected for this purpose. Minority residential areas are defined here as census tracts in which at least 50% of the population is either black or Spanish-speaking. Data from the 1970 census are used to compare the total income of families and individuals in these minority census tracts, as a percentage of the total income of the city, to the percentage of the city's population living in the minority census tracts. The income and population figures for the minority tracts refer to the totals, not only the minority income and population.

In Jacksonville, Miami, and Tampa, the income of black residential areas is lagging behind that of the general population. In Jacksonville, census tracts which were more than 50% black in 1970 contained 21.0% of city's population, but only 12.0% of the income of families and unrelated individuals (Table 1). For Miami, predominantly black tracts contained 23.2% of the population and 16.0% of the income. For Tampa, they contained 20.1% of the population and 11.7% of the income. Stores located to serve these tracts have an obvious disadvantage in terms of income within their market areas.

Census tracts with a majority Hispanic population show a similar but less dramatic pattern. In Miami, these tracts contained 51.5% of the population and 47.1% of the income, while in Tampa they accounted for 6.6% of the population and 5.9% of the income. Jacksonville had no census tracts which contained over 50% Hispanics. The smaller differentials indicate both that the Hispanic population is somewhat less segregated and that, at least in Florida, it contains a sizeable middle to upper income component.

The implications of these figures for retail firms are obvious. A store located in a predominantly black section of any of these cities will have a smaller potential market than one located in an average market for the same city. Encouraging a black to go into the retail business in a predominantly black area is subjecting an already risky undertaking (the high failure rate of small businesses is well known) to the additional risk of operating in a low income market.

The implications for minority-owned banks are also clear. Few banks can be successful where the demand for credit is high but the supply of money, in the form of savable earnings, is low. Especially when attempting to serve the credit needs of relatively risky small businesses, banks require a substantial reserve obtained from either high capitalization or a large amount of time deposits. Few minority-owned banks have a high capitalization, since a capital shortage in the minority community is their reason for existence. Similarly,

Table 1

POPULATION AND INCOME OF MINORITY

CENSUS TRACTS*, SELECTED FLORIDA CITIES

City	Population as a % of Total Population		Income as a % of Total Income	
	Black	Hispanic	Black	Hispanic
Jacksonville	21.0	---	12.0	---
Miami	23.2	51.5	16.0	47.1
Tampa	20.1	6.6	11.7	5.9

*Tracts with over 50% of the population belonging to the indicated minority group.

Source: U.S. Bureau of the Census, Census of Population and Housing: 1970, CENSUS TRACTS, Final Reports PHC(1)-95, Jacksonville, Florida SMSA, PHC(1)-129, Miami, Florida SMSA, and PHC(1)-212, Tampa-St. Petersburg, Florida SMSA.

large deposits are difficult to obtain in a part of the city with relatively low income. Minority-owned banks located in minority areas are attempting to stem the flow of funds out of the area rather than to bring new capital in, and the outflow is not large.

Non-Retail Minority Businesses

Many type of businesses do not sell directly to households and, therefore, should not be vulnerable to the low incomes in minority residential areas. These industries include the various types of manufacturers, some parts of the construction industry, and business services. Of these, minority groups have traditionally been active in business services, particularly janitorial services, and construction. There are a few examples of successful black manufacturing companies, but these have generally either made products oriented toward the black community or been closely linked to a corporate "sponsor" which served as the major customer.

In the construction sector, government assistance programs in recent years have concentrated on set-asides of certain percentages of government contracts for minority firms. While these programs have been highly publicized, they have benefitted relatively few minority group members. In 1977, construction firms accounted for 21,101 of the 213,203 black-owned enterprises (19, p. 10). Construction firms with employees totalled 5443, employing 17,199 with gross receipts of $543,833. The vast majority of the construction firms are classified as special trade contractors (17,126 firms), rather than general contractors (3415) or heavy construction contractors (495). In fact, most minority firms in the construction industry are self-employed sub-contractors and moonlighters.

Because of the small scale of operation of construction companies, they tend to be engaged in activities such as painting, home improvements, and building modifications. These activities tend to tie them to minority markets much as the retail firms are tied to those markets.

Manufacturing firms owned by minorities numbered only 4243 in 1977. However, manufacturing industries provide a good means of breaking out of the minority market trap while still maintaining inner-city locations. Manufactured products can be sold in regional and national markets and there is no need for the company to be identified to the consumer as minority-owned. There is the problem, however, of trying to compete with well established large corporations in most cases.

The definition of minority-owned firms tends to limit the size that these firms can achieve by restricting investment by non-minorities. A minority group member who owns 49% of a large corporation is not considered to have a minority-owned company, while a 51% owner of a small store is so defined. This suggests that in order to achieve any significant growth, most minority-owned firms will have to give up that status and become ineligible for government assistance. Otherwise, sufficient capital will probably not be available.

Competition and Minority Business Location

Competition affects the minority entrepreneur's location decision in two ways. First, it may appear to be easier to compete in minority areas where the minority firm has the advantage of knowing the market. Second, non-minority firms are likely to object to any government programs which have the effect of subsidizing minority firms to directly compete with unsubsidized non-minority firms.

Minority markets present a natural advantage for the minority firm. The minority entrepreneur is familiar with the tastes of minority group members and is in a good position to observe opportunities for entering the market. In addition, it has been suggested that white firms are anxious to move out of minority areas (1, p. 205), opening up opportunities for minority firms.

The prospect of locating in a predominantly white area is likely to be less attractive to the minority entrepreneur. Not only does the minority firm have to appeal to potential customers with different tastes and cultural backgrounds, it

also faces competition from the large national chains which dominate the retail sector in these areas. There are likely to be few open niches for the minority firm to fill.

The general business community is likely to be more cooperative in financing minority business development if the minority firms are not seen as a direct threat to its current market. It can be expected that the idea of subsidizing additional firms to enter the already crowded retail markets will not be well received. This reluctance to promote competition creates pressure on the government to insure that any new businesses that are created will be directed toward markets not currently desired by the large companies, i.e., the minority market. The same can be said of non-retail activities. Creating manufacturing and construction firms to compete with the established majority-owned companies will not be popular. This sentiment can be readily observed in the reaction to the construction contract set-aside program.

Conclusion

Booms and Ward suggest that the minority business development program has been an attempt to develop "... small, mainly retail, businesses in slums or low-income areas" (2, p. 21). It has been shown in this paper that there are both natural and artificial forces which have created this sort of bias in the locations selected by minority-owned firms. Whatever the cause, minority firms are being asked to compete in a market with a below average share of the nation's income. For most firms, this means that the chances of success are not good. The best that most minority firms can hope to achieve in these markets is to be a marginal, small scale operation.

Minority business programs have been shown to be burdened with conflicting objectives. They profess to be programs to create successful small businessmen, while at the same time attempting to solve the unemployment problem in minority communities. This amounts to passing the buck to the minority businessman.

Minority businesses are asked to accept more risky locations in order to hire more minority workers.

The key to a successful business development program is the flow of capital. Since minority groups generally have relatively low incomes, capital is not readily available in the minority community. Even minority-owned banks will not be successful in significantly increasing the amount of capital derived from minority areas. What is needed is a mechanism to increase the flow of capital from the wealthier parts of society to minorities. The Minority Enterprise Small Business Investment Corporation represents one attempt at this, but the program is limited and underfunded. Minority-owned banks can work if they develop branches throughout the total market in order to raise funds in the wealthier areas. To date, this approach has been limited by banking regulations and the rapid growth of large bank holding companies.

Encouraging minority firms to compete in the overall market will help to guarantee their success. Not only will the businesses have a better chance for success, but the flow of profits from white suburban store locations to minority residents would help to reverse the existing flow of capital out of minority areas.

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Minority business development programs emphasize the ownership of business enterprises, mostly personal services and retailing, oriented toward serving minority markets. This effort is reinforced by minority economic development programs which encourage minority ownership of the institutions which serve minority residential areas in order to obtain the benefits of the multiplier effect. These policies damage the chances for the successful development of minority businesses. New businesses are guided toward risky locations with relatively small markets while the burden of providing jobs for minorities is shifted from the majority to the minority entrepreneur.